

Minutes of the Town of Foxborough Audit Committee Meeting

The meeting was held July 28th, 2009, at 8:00 AM in the Selectmen's meeting room at the Foxborough Town Hall.

In Attendance:

Voting Members: Bill Fox, Larry Harrington, Charles McAlister, Brian Walton

Non-Voting Ex-officio Members: Andrew Gala, Christopher Martes, Randy Scollins

Not In Attendance:

Voting Member: Frank Souza

Guests: Robert Brown, Partner R.E. Brown & Company, Peter Paliulis CPA with R.E. Brown

The meeting was called to order at 8:00 AM.

A motion was made by Brian to elect Brian Walton as Chairman, motion seconded by Charlie, motion passed by a vote of 4-0-0

The meeting minutes from the Audit Committee meeting held on September 9th, 2008, were reviewed. Charlie made a motion to accept, Bill seconded the motion and they were accepted by a vote of 3-0-1.

Randy gave a high level summary of the FYE 2008 audited statements as follows:

- The Town received a clean audit opinion on its FYE '08 Financial Statements
- As per GASB 34 required reporting (*which is the full accrual method of accounting*)
 - Net Assets of the Town exceeded liabilities by \$70.3MM, an \$8.1MM, or 13.1%, improvement over the prior year.
 - Net Assets for Governmental Activities are \$61.9MM, a \$6.96MM, or 12.6%, improvement. The primary drivers of this increase were as follows:
 - A \$5.2MM increase in Net Capital Assets which includes the completion of the construction of the Joint Public Safety Building, the addition of several other capital assets across all departments, as well as the road improvement work around Chestnut Green and 5 new street acceptances; and
 - Current & Non-Current assets declined by \$928K as deferred receivables (*grant & other state payments*) were collected and then cash decreased slightly, year over year, as accounts payable were paid down; and consequently
 - Total Liabilities decreased by \$2.67MM, driven primarily by the scheduled amortization of debt, \$1.56MM, combined with NO new debt issuances. The balance of this decrease was a \$1.1MM reduction in liabilities, driven primarily by a reduction in current accounts payable.
 - Net Assets for Business Type Activities (*Water, Sewer & Solid Waste Enterprises*) are \$8.4MM, an \$1.19MM, or 16.5%, improvement. The primary drivers of this increase were:
 - Operating revenue exceeded operating expenses and depreciation by \$1.82MM, plus \$92K in loan subsidies & \$115K in interest; less
 - \$268K in interest expense & \$569K in overhead allocation costs;
 - For a net of \$1.19MM positive change.
- Cost of Town services in FY '08 on a full accrual basis was \$59.5MM. This is up \$2.36MM, or 4.1%, from FY '07.
 - \$55.8MM is associated with Governmental services, which is up \$2.07MM, or 3.85% driven primarily by Public Safety, Education and Employee Benefits. These three areas combine for 119% of the increase.
 - \$3.7M is associated with Business Type activities, which is up \$292K, or 8.5%, due to increased operating costs for both Water & Sewer – NOT Solid Waste.
- Total bonded debt decreased by \$2MM, or 7%, to \$26.8MM, due entirely to scheduled principal payments and no new issuances.

- The Town generated a substantial amount of free cash, \$6.18MM at the end of FYE '08. This amount was about \$4MM higher than what the Town typically generates annually and was primarily due to one-time Patriot Place mitigation payments, substantial and non-repeatable increases in building permit fees, motor vehicle excise taxes, investment earnings and a final payment from the MSBA resulting from the completion of the Taylor roof replacement audit. The remaining carry forward amount of \$3.4MM should give the Town some flexibility to sustain reduced state aid payments and maintain services over the next couple of years, so long as there are no new significant spending initiatives or other uses of these funds.

Committee members had several questions and comments about various aspects of the statements. All questions were answered to the satisfaction of the members.

The Committee spoke at length about the ever increasing cost of health benefits and the soon to be completed actuarial analysis regarding the Town's long-term liability for these benefits. It was agreed that the actuarial report be reviewed by the Audit Committee as soon it is available. Randy said that the work was starting this week with the consultant, Buck Consultants, and it was expected that the report would be ready in about three months. Randy stated that it is expected that the liability would be material to the Town's balance sheet. Larry stated that there needs to be discussion and action that addresses these significant costs. He would like to see more progress with the Insurance Advisory Committee on addressing the cost and funding issues. It was agreed that the consultant's report should also be discussed at a Board of Selectmen's meeting.

Bill remarked on the note in the financial statements that stated the Town does not have a formal deposit policy for custodial credit risk and that such a large portion of the Town's cash balances are uninsured and uncollateralized.

Randy responded that in FY 2009 this situation has changed. The Treasurer has always had and followed a deposit policy for custodial risk, but now this policy has been documented. A copy of the policy was shared with the Committee. Also in FY 2009, some of the banks the Town does business with have offered no charge collateralization agreements, which the Town has taken advantage of. Randy also stated that he is not concerned about the risk of the Town's deposits due to the diversification achieved as a result of the many banks the Town deposits with combined with the regular review of each bank's rating as per the independent bank rating agency, Veribank. Larry asked Bob Brown how Foxborough compared to other communities with regard to custodial credit risk. Bob stated that Foxborough's situation is no different than other communities.

Larry asked if the addition of an internal auditor to the Finance Staff had ever been considered. It had not been. Bob Brown stated that he was not aware of other Massachusetts communities having such a position, except maybe the cities of Boston and Springfield. Larry suggested that it might be more economical to have such a position rather than trying to appropriate enough funding over several years to pay a consultant to do just one study, when those funding efforts have been unsuccessful since initiated five years ago by the Audit Committee.

Bill asked why the Committee was reviewing the FYE 2008 statements at this late date. Randy explained that he has struggled to complete the necessary work sooner due to competing priorities and resource constraints. Randy stated that, again, he is still targeting January for the completion of the finalization of statements and the FYE '09 audit, but depending on how his workload goes, it may not be finalized until later. A discussion ensued led by Larry focused on the need for the Audit Committee to review, and if necessary, advocate for staffing increases for the Finance department. Larry requested that Randy compile a finance department staffing comparison with other comparable communities for the next Audit Committee meeting. Randy stated that he had done that in the past and committed to update that comparison for the next meeting.

Bill raised the point about whether the Audit Committee should be submitting its own report to the Town, separate from that submitted by the Finance Director. Larry concurred that it would appropriate to do so.

Bob & Randy reviewed the FY 2008 Management Letter items as follows:

Finding:

- The Town does not have a disaster recovery plan for financial operations.

Response:

- The Joint Public Safety Building has been identified as the back-up site and steps are being taken to have the back-up system functioning from that site. Due to the turnover in the I.S. department, this has been delayed. Randy explained the progress and plans to eventually consolidate municipal technical support within the School I.S. department. Once the back-up system is functioning from the Public Safety Building, recovery procedures will be developed.
- Larry asked, and Randy agreed, that milestone dates be added into this response going forward.

Finding

- Control logs for reserves and abatements should be kept by the Assessor's office in order to allow for a reconciliation process with the general ledger.

Response:

- This was resolved in FY 2009.

Future Changes in Law & Accounting Standards:

- Reporting of other post employment benefits (OPEB) are required in the FY 2009 statements.

Response:

- This is fully understood by Town management and plans are in place to comply. The benefits costs actuarial study is funded in the FY '09 budget. An actuary has been hired, and the study will be completed for inclusion in the FY '09 statements, as per GASB 45 requirements. The report is expected to be completed in about three months.

The federal grants audit document was reviewed by Bob. He stated that there were no issues with the required federal grant audit and that the report had been properly filed with the federal government.

Under old/new business, Randy directed the members to his annual report in the latest Town Report to review all of the progress made in the new financial and assessing systems implementations. Randy informed the members that audited statements, meeting minutes and agendas for the Committee could be found on the new Town website on the Audit Committee page.

Charlie motioned to adjourn the meeting, Larry seconded, and the meeting was adjourned at 10:00 AM by a vote of 4-0-0.

Meeting minutes were accepted by the Committee on 12/14/09, by a vote of 4-0-0.